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February 10, 2000

FILED³

FEB 10 2000

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

**RE: Missouri-American Water Company - Consolidated Case Nos. WR-2000-281
SR-2000-282**

Dear Mr. Roberts:

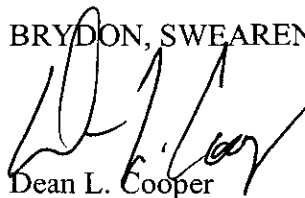
Enclosed for filing in the above-referenced proceeding please find an original and fourteen copies of MAWC's Motion for Reconsideration of Order Concerning Accounting Authority Order. Please stamp the enclosed extra copy "filed" and return same to me.

Thank you very much for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:


Dean L. Cooper

DLC/rhg
Enclosures

cc: Office of the Public Counsel
Mr. Keith Krueger
Ms. Shannon Cook
Mr. Louis Leonatti
Mr. Jim Fischer
Mr. Leland Curtis
Mr. Brent Stewart
Mr. James Duetsch

Mr. Joseph Moreland
Mr. Stu Conrad
Ms. Lisa Robertson
Ms. Diana M. Vuylsteke

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

FILED³

FEB 10 2000

In the Matter of Missouri-American)
Water Company's Tariff Sheets Designed)
to Implement General Rate Increases for)
Water and Sewer Service provided to)
Customers in the Missouri Service Area)
of the Company.)

Case No. WR-2000-281

Case No. SR-2000-282

Missouri Public
Service Commission

**MAWC'S MOTION FOR RECONSIDERATION OF
ORDER CONCERNING ACCOUNTING AUTHORITY ORDER**

COMES NOW Missouri-American Water Company ("MAWC" or "Company") and, pursuant to 4 CSR 240-2.160, states as follows to the Missouri Public Service Commission ("Commission") as its motion for reconsideration of that portion of the Commission's Order Concerning Test Year, True Up, Accounting Authority Order, and Local Public Hearings ("Order") which addresses MAWC's Motion for Accounting Authority Order ("AAO"):

1. On November 19, 1999, MAWC filed its Motion for Accounting Authority Order in which MAWC requested an AAO authorizing it to continue the capitalization of Allowance for Funds Used During Construction and to defer depreciation on certain capital expenditures the St. Joseph treatment plant and related facilities. This AAO was requested to begin with the in service date and continue until the effective date of a Commission rate order which includes the St. Joseph treatment plant and related facilities in MAWC's rate base and includes depreciation expense in MAWC's operating expenses.

2. On February 1, 2000, after considering MAWC's motion, as well as other pleadings concerning the requested AAO, the Commission issued its Order Concerning Test Year, True Up, Accounting Authority Order, and Local Public Hearings. The Commission, among other things, ordered:

That the Commission will defer decision on Missouri-American Water Company's Motion for an Accounting Authority Order until it issues its Report and Order in this case. The parties will thoroughly advise the Commission on this issue in testimony and briefing. Any party that wishes to supplement its already-filed testimony to include this issue may do so.

It is this aspect of the Commission's Order of which MAWC seeks reconsideration.

PRESERVATION OF THIS ISSUE FOR HEARING REQUIRES AN AAO

3. The Commission's Order concerning MAWC's Motion for AAO is unjust or unreasonable in that defeats the Commission's stated desire to defer the issue. The AAO is a deferral mechanism which preserves costs for possible future rate inclusion. Consequently, if the AAO is not granted, the issue will not be preserved for the Commission to decide as a part of its eventual Report and Order. To preserve this issue for hearing, the Commission must grant the requested AAO.

4. The situation which MAWC is attempting to address with this request concerns accounting implications associated with the date the St. Joseph treatment plant and related facilities are placed "in service." This will occur during April, 2000.

ACCOUNTING IMPLICATIONS RELATED TO THE "IN SERVICE" DATE

5. In conformity with the Uniform System of Accounts ("USOA") prescribed by this Commission, MAWC has been capitalizing Allowance for Funds Used During Construction ("AFUDC") during the period of construction of the St. Joseph treatment plant and related facilities. AFUDC represents construction carrying charges, or interest on the funds borrowed for the construction. This interest is capitalized during the construction period. The "construction period" comes to a conclusion at the point the project is placed "in service."

6. The USOA contemplates that, unless the Commission orders otherwise, the capitalization of AFUDC shall terminate on the date the St. Joseph treatment plant and related

facilities are placed in-service (i.e. prior to April 30, 2000). Thus, as of the "in service" date, the interest being paid by MAWC is no longer a part of the construction costs and no longer booked in such a way as will allow it to be placed in rate base or recovered in rates. Also, as of the "in service" date, the accrual of depreciation expense commences which, in the case of a project this large, creates a significant expense item on the books of MAWC.

COST TO MAWC AS OF THE "IN SERVICE" DATE

7. The effect of the accounting treatment related to the "in service" date is that MAWC's earnings will be reduced approximately \$347,000 each month the St. Joseph treatment plant is "in service" and not included in rates. Over the approximate four and one-half months between the expected "in service" date and the operation of law date, this amounts to a loss to the Company of \$1.56 million.

8. Additionally, the post-in-service AFUDC and deferred depreciation expense net of taxes represents over twenty-eight percent (28%) of MAWC's pro forma utility operating income at present rates. Pro forma present rate earnings for the period April through September 2000, would be only \$61,000 without consideration for post-in-service AFUDC and deferred depreciation expense. Earnings for the same period under the proposed rates would be \$3,758,000. Thus, without consideration for post-in-service AFUDC and deferred depreciation expense, MAWC would receive approximately .08% return on rate base for this five month period or approximately 1.6% of its reasonable earnings.

MAWC MUST HAVE AN AAO PRIOR TO THE "IN SERVICE" DATE

9. In order to prevent this loss between the "in service" date and the operation of law date and to preserve the issue for Commission consideration, MAWC must have an AAO prior to April 2000. Without such an order, the accounting implications described above begin on the "in

service” date and are beyond the reach of the Commission in its later Report and Order. Thus, if the Commission “defers” its decision, the issue is moot and MAWC no longer has the opportunity to present it to the Commission for decision.

GRANTING AN AAO WILL MERELY PRESERVE THIS ISSUE FOR HEARING

10. A Commission decision granting an AAO does not grant recovery. It merely preserves the issue so that it can be considered within the context of a rate case. *In the matter of the application of Missouri Public Service*, 1 Mo.P.S.C.3d 200, 203-204 (1991) (“By seeking a Commission decision [regarding the issuance of an AAO] the utility would be removing the issue of whether the item is extraordinary from the next rate case. All other issues would still remain, including, but not limited to, the prudence of any expenditures, the amount of recovery, if any, whether carrying costs should be recovered, and if there are any offsets to recovery.”).

11. By its motion, MAWC sought only to maintain the status quo as to the accounting treatment for these expenses so that it would not suffer an immediate detrimental impact as of the “in service” date of the St. Joseph treatment plant and facilities. This would allow MAWC the opportunity to present the post-in-service AFUDC and deferred depreciation expenses to the Commission for decision within the context of this rate case. If, on the other hand, the AAO is not granted, it will have an immediate detrimental impact on MAWC’s financial condition as of the in service date of the St. Joseph treatment plant and facilities.

12. The only way by which the Commission can “take this issue with the case” and allow the parties to “fully present this issue in testimony and brief,” as appears to be its desire, is to reconsider its previous order and, thereafter, grant the AAO.

WHEREFORE, MAWC respectfully requests that the Commission reconsider that portion of its Order Concerning Test Year, True Up, Accounting Authority Order, and Local Public Hearings

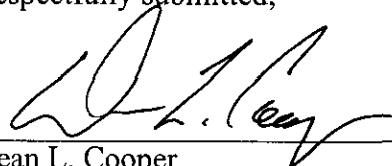
which addresses MAWC's motion for accounting authority order and, thereafter, issue its order

(a) authorizing MAWC to continue the capitalization of AFUDC and to defer the accrual of depreciation expense on the St. Joseph treatment plant and related facilities from their in-service date until the effective date of a Commission rate order which includes the St. Joseph treatment plant and related facilities in MAWC's rate base and includes depreciation expense in MAWC's operating expenses;

(b) authorizing MAWC to use a rate of 7.22% to capitalize AFUDC on the St. Joseph treatment plant and related facilities from their in-service dates until the effective date of a Commission rate order including the St. Joseph treatment plant and related facilities in MAWC's rate base; and,

(c) including such further relief as the Commission deems appropriate in the circumstances.

Respectfully submitted,



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ATTORNEYS FOR MISSOURI-AMERICAN
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Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent by U.S. Mail, postage prepaid, or hand-delivered on this 10th day of February, 2000, to the following:

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